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Sistema Econômico
Latino-Americano e do Caribe
Système Economique
Latinoaméricain et Caribéen

Recent developments in economic relations between the People's Republic of China and Latin America and the Caribbean. Institutional and cooperation mechanisms for strengthening relations

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F O R E W O R D

This document is in line with the Work Programme for the year 2010 (Project III.5) of the Latin American and Caribbean Economic System (SELA). It analyzes the recent economic dynamics of the People's Republic of China and the development of relations with Latin American and Caribbean countries. It also describes several institutional and cooperation mechanisms between the two regions and proposes some actions and initiatives to boost economic relations between China and Latin American and Caribbean nations.

This document is divided into five sections: i) China's counter-cyclical economic policy and its results; ii) China's economic dynamism and its impact on Latin America and the Caribbean; iii) Rapprochement of Latin America and the Caribbean to the People's Republic of China; iv) Economic relations between Latin America and the People's Republic of China; v) Differences as regards reciprocal relations strategies between China and Latin America and the Caribbean, and finally, conclusions and recommendations.

This work, prepared by the Permanent Secretariat of SELA, delves into and completes prior studies conducted by the institution in the field of economic relations between LAC and the People's Republic of China.

The Permanent Secretariat is thankful for the effort and highly appreciates the work of Mr. Eugenio Anguiano, Professor and Researcher of the Center for Economic Research and Teaching (CIDE) in Mexico, who prepared this study as SELA consultant, as well as Ms. María Teresa Rodríguez y Rodríguez, researcher at the Institute of Economic Research of the National Autonomous University of Mexico, who also collaborated in this study.

EXECUTIVE SUMMARY

The fast growth of the economy of the People's Republic of China over the past few years, along with its high level of foreign opening, has had significant dynamic effects on foreign economies around the world, including the Latin American and Caribbean region (LAC). Notwithstanding other countries and regions are China's major trade partners, China-LAC trade — measured by increasing Chinese exports — has recorded the fastest mean annual rate in the past 10 years. In addition, in 2009, China's purchases of LAC goods and services accounted for 6.4% out of total Chinese imports (somewhat more than US\$ 1 billion), a volte-face compared with only 2.4% out of the total amount in 2000.

The global economy crunch in 2009 adversely affected China's foreign trade, resulting in 16% shrinkage of total exports versus the prior year and a relatively lower drop of Chinese imports (11.2%). Notwithstanding the decrease of such key variable — exports — for China's economic growth, in 2009, the Chinese GDP recorded a real increase at 8.7%, all of this against the background of global economic decline. Such a positive economic dynamics of the People's Republic of China in a recessive context was mostly due, among others, to the introduction of a counter-cyclical incentive package for US\$ 586 billion, the largest in the world after the US package and undoubtedly the most important one in relative terms considering the size of the Chinese economy.

While a soaring Chinese GDP no matter widespread recession shows China's macroeconomic strength, the recession unveiled the vulnerability of its labour market. Downsizing exports in the last quarter of 2008 and the first quarter of 2009 resulted almost suddenly in the unemployment of at least 20 million people, something regarded by Chinese leaders as unacceptable for domestic stability and peace. In reply, Chinese authorities undertook tax and monetary measures for economic recovery and to keep a yearly economic growth over 8%. These measures primarily focused on spurring on investment and, to a lesser extent, family consumption, resulting in a very fast recovery of the production of goods and services from the first quarter of 2010.

For Latin America and the Caribbean, the dynamic Chinese market is a great opportunity that, if wisely seized, would mean an even higher increase in LAC goods and services.

The Chinese-LAC trade potential is huge, not only in the trade area but also in the financial area; in technological cooperation, in educational and cultural cooperation, and, of course, in political-diplomatic terms. Out of the 33 countries in our region, 21 keep full diplomatic relations with China and 12 with Taiwan. Since the Beijing government has always taken the stance that there is only one China, formal government links with the People's Republic of China preclude the possibility of any direct relations with Taiwan. Nevertheless, it should be noted that even LAC countries that have opted to get diplomatically closer to the Taipei government engage in trade with China.

A total of 11 LAC countries concentrate most of the trade and financial exchange with China and also prioritize political dialogue with the Asian nation: Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Peru, Uruguay and Venezuela in South America; Cuba in the Caribbean, and Mexico. These countries are responsible for most exchanges of visits at the level of Heads of State and high-ranking authorities between China and LAC, as well as bilateral strategic agreements. Nevertheless, it should be noted that each country has established such links in its own interest and based on its special features.

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At the end of 2008, Beijing released an official paper which summarizes its strategic view of relations with LAC. The study — a summary of the government overall stance on relations with LAC — should be used as a baseline for LAC countries to start regional economic cooperation with the People's Republic of China. This will imply further consultation and political coordination among Latin American and Caribbean governments on the subject of political, economic, technological, scientific, educational and cultural relations with China.

This work lists some initial steps to gradually attain such coordination. Firstly, regular exchange of experiences and results about the economic relations with China, bolstered by the Foreign Ministries of Latin American and Caribbean countries. Secondly, it has been underscored the importance of holding regular meetings among representatives of the governments of the region which have diplomatic ties with China, with a view to ascertaining challenges and opportunities for Latin America and the Caribbean arising from China's economic dynamics. For such purposes, the role of organizations such as SELA is very useful. SELA could convene a regional consultation meeting next year with a view to assessing national experiences of LAC countries as regards their relations with the People's Republic of China, all of this in the context of the analysis of the strategic document on economic relations with the LAC region authored by Chinese authorities. At the same time, the use of smooth channels — on a permanent basis — is strongly recommended for the exchange of experiences among Latin American and Caribbean Foreign Ministries regarding several inter-institutional mechanisms aimed at encouraging economic and cooperation relations with the People's Republic of China. In this regard, SELA could become a regional forum par excellence for such purposes.

Finally, while exchange and cooperation mechanisms developed by LAC countries in their trade with China are diverse, the following mechanisms are noteworthy due to their proven or potential effectiveness: chambers of commerce and investment specialized in trade with China; joint inter-government committees which work on medium-term programmes towards cooperation of each country with China; regular exchange of business missions; bilateral agreements entered into by and between Latin American and Caribbean universities and colleges and their Chinese counterparts; regular talks between the legislatures of both sides; development of strategic sector technology projects (in the field of space, information technology and electronics, among others). To boost economic relations and reciprocal cooperation between LAC and China, the appropriateness of regionalizing positive experiences of the operation of these inter-institutional mechanisms needs to be explored. For such purpose, a regional body such as SELA could be very useful as well.

I. CHINA'S COUNTER-CYCLICAL ECONOMIC POLICY AND ITS RESULTS

The Chinese economy displayed the fastest economic growth in the world in 1992-2008. According to the numbers supplied by the International Monetary Fund (IMF), the GDP in real terms (at constant prices) recorded the following average annual growth rates.

Table 1. China: Real GDP, average annual variation (%)

1992-2001	2002-2008	2002	2003	2004	2005	2006	2007	2008
10.3	10.5	9.1	10.0	10.1	10.4	11.6	13.0	9.6

Source: Based on data from the IMF, World Economic Outlook, April 2010, p. 160, Table A4.

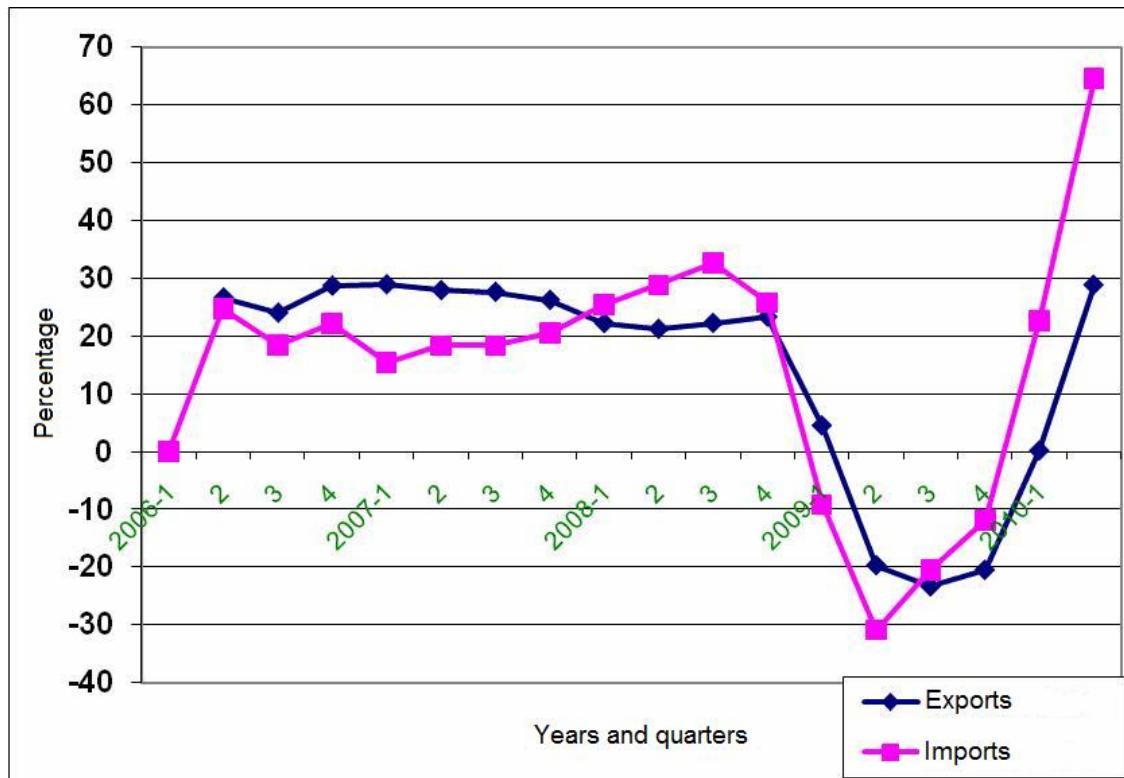
The high and sustained growth rate of the Chinese economy was first tried in the latest global financial and economic crisis in 2008-2009.

Globally, economic growth abruptly slowed down. From 2007 to 2008, the growth rate of world product fell by 38%, from 5.2% to 3.2%, respectively, with a drop estimated by the IMF in April 2009 at -1.7% and -2.6% of the GDP of the 33 economies ranked as advanced by the institution in the fourth quarter of 2008 and the fourth quarter of 2009, respectively (WEO, 4/2009, 10). Shrinkage of the world and advanced economies, particularly the United States, where the deepest financial crisis in modern history has ever occurred since the crisis of 1929-1933, significantly reduced the world demand and, therewith, imports and international trade.

While the major driving force of Chinese economy has been domestic demand, particularly investment, losing momentum of foreign sales, which worsened from the fourth quarter of 2008 with an annualized increase as low as 4.5% and continued in the first three quarters of 2009 with annualized export variation rates of -19.7%, -23.4% and -20.5% (see Chart 1), forced, at the end of 2008, the shutdown of "more than 67,000" small and medium-sized enterprises across China (Hsiao, 19/12/2008, 1). As for toys, half of manufacturing plants in China, which in 2008 had supplied 70% of world exports, stopped operations. Shutdown of manufacturing plants and business made quite an impact on employment. In February 2009, the Central Leading Group for Rural Work of the Chinese Communist Party reported that in late 2008, 20 million migrant workers lost their jobs, approximately 15% out of China's overall migrant labour force (Yang & Lim, 2010, 27-28).¹ Based on such reference, the amount of workers labelled as rural population who annually move from one to another Chinese city to find a job in the building sector, among others, is estimated at 133.3 million. They account for more than a half of the labour force in all of Latin America and the Caribbean. (Observatorio, 10/2006, 39).

¹ Other estimates point out that in the worst months of global recession, China's minimum wages were frozen; in the coastal cities of Guangzhou, Dongguan and Shenzhen, 670,000 factories which intensively used labor force closed, and 25 million migrant workers lost their jobs (*The Economist*, 31/7/2010, 49).

Chart 1. China: Quarterly growth rates of foreign trade
(From Q-1 2006 to Q-1 2010, including both)



Source: Based on data from the Economist Intelligence Unit, Country Report, China, several issues.

Based on official figures, the open unemployment rate in China rose to 4.2% in January 2009 and was estimated by the Ministry of Human Resources and Social Security to reach up to 4.6%, the highest since the eighties.² Such an unemployment rate could seem negligible in times of world recession, particularly compared with the unemployment rates — as a proportion of the available labour force — recorded in the United States and several European Union nations. However, in absolute terms, it is a serious problem for China. Based on data of labour force and employees in 2008 — 792.4 and 774.8 million people, respectively — there would be 17.6 million jobless (the difference between the first and the second figures). There is also the official information that in late 2008, 20 million out of 721 million migrant workers, registered as rural population, lost their jobs. A total of 473 million were part of the rural labour force or, according to the official terminology, employed population (CSY,³ 2009, 89 and 111).

² "China's Unemployment Rate Climbs." *China Daily*; 21 January 2009.

³ 中国统计年鉴 (China Statistical Yearbook = CSY).

Table 2. China: Population and employment
(millions of people)

	2004	2005	2006	2007	2008
A. Total population	1,299.9	1,307.6	1,314.5	1,321.3	1,328.0
Urban	542.8	512.2	577.1	593.8	606.7
Rural	757.1	745.4	737.4	727.5	721.4
B. Population aged 0-14 years	279.5	265.0	259.6	256.6	251.7
% of total	21.5	20.3	19.8	19.4	19.0
C. Population aged 15-64 years	921.8	942.0	950.7	958.3	966.8
% of total	70.9	72.0	72.3	72.5	72.7
D. Population aged 65+ years	98.6	100.6	104.2	116.4	109.6
% of total	7.6	7.7	7.9	8.1	8.3
E. Gross dependency ratio¹	41.0	38.8	38.3	37.9	37.4
F. EAP²	768.2	778.8	782.4	786.5	792.4
G. Total employed population	752.0	758.3	764.0	769.9	774.8
Primary industry	352.7	339.7	325.6	314.4	306.5
Secondary industry	169.2	180.8	192.3	206.3	211.1
Tertiary Industry	230.1	237.8	246.1	249.2	257.2
H. Employed urban population	264.8	273.3	283.1	293.5	302.1
I. Employed rural population	487.2	484.9	480.9	476.4	472.7
J. Amount by type of employer³	179.6	187.6	194.6	199.5	204.0
K. Rural Residual (I-J)⁴	307.6	297.3	286.3	276.9	268.7
L. Difference C-F	153.6	163.2	168.3	171.8	174.4
M. Unemployment rates in urban areas	4.2	4.2	4.1	4.0	4.1

¹ $GDR = P_{0-14} + P_{60+} \div p_{15-64} \times 100$. Refers to the ratio of non-working-age population to the working-age population.

² Economically Active Population.

³ Enterprises in small towns and villages, private enterprises, self-employed individuals (rural areas).

⁴ This could include farming and related activities. The land is owned by the community, which signs long-term contracts with farming families so that they can work it.

Source: Based on data from CSY, 2009, 89-90-108-111)

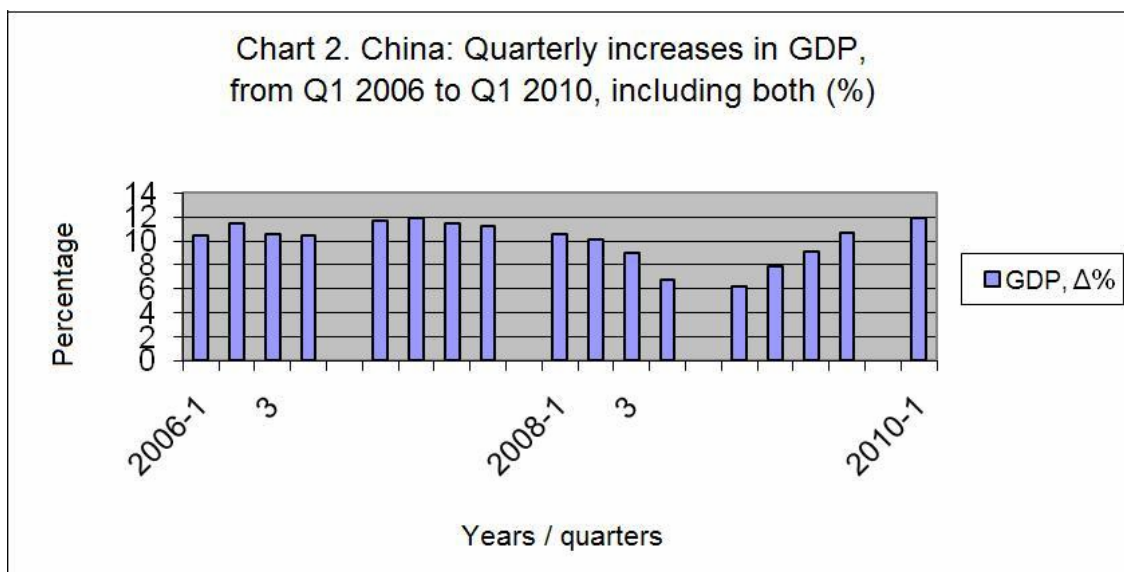
The National Bureau of Statistics of China (NBSC), responsible for preparing and releasing statistics yearbooks, defines as employees the persons older than 16 years who get a pay in cash or an income in a business of their own. They are the labour force, the size and distribution of which, according to the type of economic activity or "industry," in the NBSC words, and type of society (urban or rural), are listed in rows G, H, I and J of Table 2. There is no way to estimate the real unemployment rate with official data, because the difference between the labour force (employed people) and the working population is tiny and does not mirror the real unemployment rate.

Nevertheless, a comparison of the total working-age population (C in Table 2) with the total available labour force (working population, row F) shows a working-age population which is not considered economically active. Probably most of this population — amounting to 174 million people in 2008 — is under-employed or disguised unemployed. Anyhow, the astounding amount of Chinese able to work, far beyond the total

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population of the Americas (911 million, according to estimates in July 2008),⁴ puts lot of pressure on the production apparatus and the economy growth rate, which needs to be high in order to absorb the annual inflow⁵ of such giant labour force. At the same time, China enjoys what experts call "demographic bonus", which means that every 100 people able to work sustain about 37 or 38 non-working people, including children and the elderly. This is a very favourable dependence ratio compared with developed nations, where aging is an irreversible problem. Anyhow, China has a peculiar situation in terms of population and employment.

Anyhow, China has a peculiar situation in terms of population and employment. On the one hand, it has a virtually unlimited labour force. On the other hand, any variation in GDP growth rate immediately exerts pressure on the labour market. In December 2008, Chinese senior leaders set 8% for GDP annual increase as the minimum target to prevent unacceptable unemployment and under-employment rates for the country's stability and social peace (Hsiao, 22/1/2009, 1-2). Falling exports in late 2008 and the first two quarters of 2009 (Chart 1) slowed down the GDP growth (Chart 2). For this reason, 20 million rural people could not get back to their jobs in the cities at the end of the holidays of the Chinese New Year (February 2009). As shown in Chart 2, the lowest point of the recessive stage of the cycle was the first quarter of 2009. As already mentioned, such a slowdown of the GDP mostly caused the collapse of foreign sales of Chinese products.



Source: Based on data from EIU, Country Report, China, several issues.

Chinese government authorities immediately replied to the threat of economic shrinkage and labour crisis. In November 2008, the State Council announced a fiscal stimulus package for RMB 4 trillion, equivalent to US\$ 586 billion, at the exchange rate then in force. The counter-cyclical programme was upheld in December 2008 at the Central Economic Work Conference held at the end of every year by the Central Committee of the Communist Party of China, with the participation of the top leaders of both the Central Committee and the country.

The following major areas would be benefited by the programme: (a) houses built by the government for low-income population; (b) rural infrastructure, such as water supply and conservation, rural roads and powerhouses; (c) transportation facilities, such as highways,

⁴ <http://en.wikipedia.org/wiki/Americas>

⁵ In 2004-2008, the annual increase of employees (row G, Table 2) averaged 11.4 million.

railroads and airports; (d) public health and education favouring environmentally-friendly and ecological projects; (f) innovation, research and development (IR&D); and (g) reconstruction of the areas hit by the Sichuan earthquake in 2008.

The counter-cyclical package (US\$ 586 billion) to be applied, according to official data, in fiscal years 2009-2010 accounted for 13.3%, or US\$ 4.41 billion, of the nominal GDP in 2008 (Country Report, 12/2009, 36). In comparative terms, the Chinese stimulus package was among the largest in the world, only behind the US package. Table 3 shows the latest distribution among the strategic areas chosen by Chinese authorities.

Table 3. Economic stimulus packages in the world
(US\$ billions)

United States	780	- South Korea	12
China	586	- Australia	8
Asia-Pacific	143	India	4
- Japan	105	Europe	15
- Singapore	14	Latin America and the Caribbean	8
China: Areas in which the US\$ 586 billion stimulus package was invested (% of that total)			
Transport and energy infrastructure	45	Public housing	7
Reconstruction after earthquake damage	25	Research and development	4
Rural infrastructure	9	Health care and education	1
Environmental improvements	9		

Source: (Yang and Lim, 2010, 34). Data taken from: Asian Wall Street Journal and the National Development and Reform Commission of China's State Council.

Levers in the anti-crisis programme of the Chinese government included, first, tax incentives, and second, an expansive monetary policy characterized by low interest rates and, above all, larger bank credit quotas — almost the whole state commercial bank — for purchase of real estate, construction and investments in infrastructure. Based on the information supplied by the Chinese government and other sources, such as the Economist Intelligence Unit (Country Report, 6/2010, 34), tax and monetary incentives had positive and almost immediate effects, firstly on the business cycle and then on the GDP, which in 2009 ended at an 8.7% increase in real terms from the previous year. For its part, in April 2010, the International Monetary Fund reported a similar growth rate of the Chinese GDP. That same year in July, it revised its estimate to 9.1%.

The following table is intended to provide a comparison of the IMF latest results and forecasts.

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Table 4. Prospects of the world economy, some countries and groups.
Recent estimates and projections of inter-annual variations of the real GDP (%)

	Estimates		Projections	
	2008	2009	2010	2011
World	3.0	-0.6	4.6	4.3
United States	0.4	-2.4	3.3	2.9
Japan	-1.2	-5.2	2.4	1.8
United Kingdom	0.5	-4.9	1.2	2.1
Euro area (16)	0.6	-4.1	1.0	1.3
Developing Asian countries (26)	7.7	6.9	9.2	8.5
China	9.6	9.1	10.5	9.6
India	6.4	5.7	9.4	8.4
Latin America and the Caribbean (32)	4.2	-1.8	4.8	4.0
Brazil	5.1	-0.2	7.1	4.2
Mexico	1.5	-6.5	4.5	4.4

Source: Taken from the IMF, Perspectiva de la economía mundial Al Día, 7 July 2010, p. 2.

The forecast on recovery of high growth rates in the Chinese economy for the rest of this and next year (2011) is good news for developing countries exporting raw materials. The estimates of revitalized Chinese imports are particularly encouraging. The EIU puts China's total imports above US\$ 1.1 trillion each year (Table 5), which means a robust Chinese demand of minerals, particularly metals, oils and natural greases and petroleum. China was undoubtedly the main driving force of world economy in 2009. If it were not for this country, the recession would have been even deeper than expected by the IMF.

For this reason, there is global concern about China's economic dynamism and performance. In the meantime, tax incentives and a relaxed monetary policy seem to favour investment again. Furthermore, the People's Bank of China (the Central Bank) started to restrain liquidity and lending in the last quarter of 2009. It should be noted that increasing rediscount and commercial bank interest rates in China are not enough to curb monetary supply and inflation. As a result, actions have been taken to increase bank reserves, including those from doubtful accounts, and use quotas per type of credits. And this is what the Central Bank has ordered, particularly to contain excessive spending in real estate and durable consumption goods, such as vehicles. Notwithstanding, bank loans are expected to continue buoyant in 2010, near RMB 7 trillion (somewhat more than US\$ 1 trillion). Still, there might be a slight percentage decrease in credits supply from 2009, particularly for investments and public expenditure (Country Report, 6/2010, 7).

As to the special fiscal stimulus package, it has had a clear impact on the central government deficit, which increased from a minimum level in 2008 to 2.2% of the GDP in 2009 and might remain high in the next two years (2.9% and 2.7 % respectively; Table 5). The combined effect of the fiscal deficit and rising monetary supply on inflation does not seem dangerous, as shown by percentage variations of consumer and producer price indexes, also included in Table 5, even taking into account that the former shows a twofold hike in prices between 2009 and 2010.

Table 5. China: Actual, estimated and projected annual indicators

	2008 ^a	2009 ^b	2010 ^c	2011 ^c
Population (millions)	1,328	1,335	1,339	1,346
Nominal GDP (RMB billion)	30,686	33,535	37,721	42,265
Nominal GDP (US\$ billion)	4,416	4,909 ^a	5,566	6,446
GDP real growth (%)	9.6	8.7	9.9	8.2
GDP by expenditures (% real change)				
Private consumption	8.4 ^b	9.4	9.1	9.0
Public consumption	8.3 ^b	10.1	10.9	9.3
Gross fixed investment	9.4 ^b	19.1	12.5	9.1
Exports of good and services	13.9 ^b	-8.8	8.4	7.8
Imports of good and services	15.2 ^b	-1.9	9.0	8.6
Fiscal indicators (% of GDP)				
Central government's income	20.0	20.4	19.8	19.7
Central government's expenditures	20.4	22.6	22.7	22.3
Central government's balance	-0.4	-2.2	-2.9	-2.7
Net public debt	15.6 ^b	16.9	18.3	19.3
Prices and financial indicators				
Consumer prices (end of the period, %)	1.4	1.5 ^a	3.4	3.3
Producer prices (end of the period, %)	6.9	-5.4	7.1	2.8
Money stock M2 (%variation)	17.8	27.6	17.8	17.3
Current account (US\$ billion)				
Trade balance	360.7	249.5	188.7	190.4
Exports of goods FOB	1,434.6	1,203.8	1,352.2	1,502.3
Imports of goods FOB	1,073.9	954.3	1,163.5	1,311.9
Current account balance	426.1	297.1	228.5	233.2
(as % of GDP) ^d	(9.6)	(6.1)	(4.1)	(3.6)
Foreign debt (<i>stock</i> US\$ billion)	399.4 ^b	371.6	431.8	493.3
International reserves (US\$ billion)	1,953.4	2,421.5	2,644.4	2,984.5

^a Actual data. ^b Estimates. ^c Projections. ^d Calculated on the basis of Nominal GDP in US\$.

Source: Partially taken from the EIU. Country Report June 2010. China, p. 34.

The largest concern about recovery of high growth rates in the Chinese economy is that the traditional bias of the state economic strategy has prevailed in favour of accumulation and investment in fixed assets, at the expense of internal, private and public, consumption. This means that industrial production is reactivating faster than macroeconomic variables, resulting in an excessive supply which, based on the experience over the past few decades, is placed in the foreign market thanks to highly competitive prices of Chinese exports due to the following factors: abundant availability of labour force; high domestic and foreign investment; moderate increase in factor productivity; credit policies for exporters; subsidies and undervalued exchange rate.

Any advantages that the foregoing may bring to energy and other raw material exporting economies are counteracted by rising deficit of countries which export commodities similar to the goods placed by China in international markets. Even though a significant decline in China's current account surplus as proportion of its GDP (Table 5) has been estimated, international reserves could keep on accruing until nearing US\$ 3 trillion at the end of next year (Table 5). Global imbalances will be resolved some day, and this will require surplus countries like China to report an increase in internal consumption relatively faster than other expenditure constituent elements: an exchange rate adjusted to supply and real demand of the local currency versus other currencies

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and a degree of capital account liberalization equivalent to those of foreign trade and financial partners.

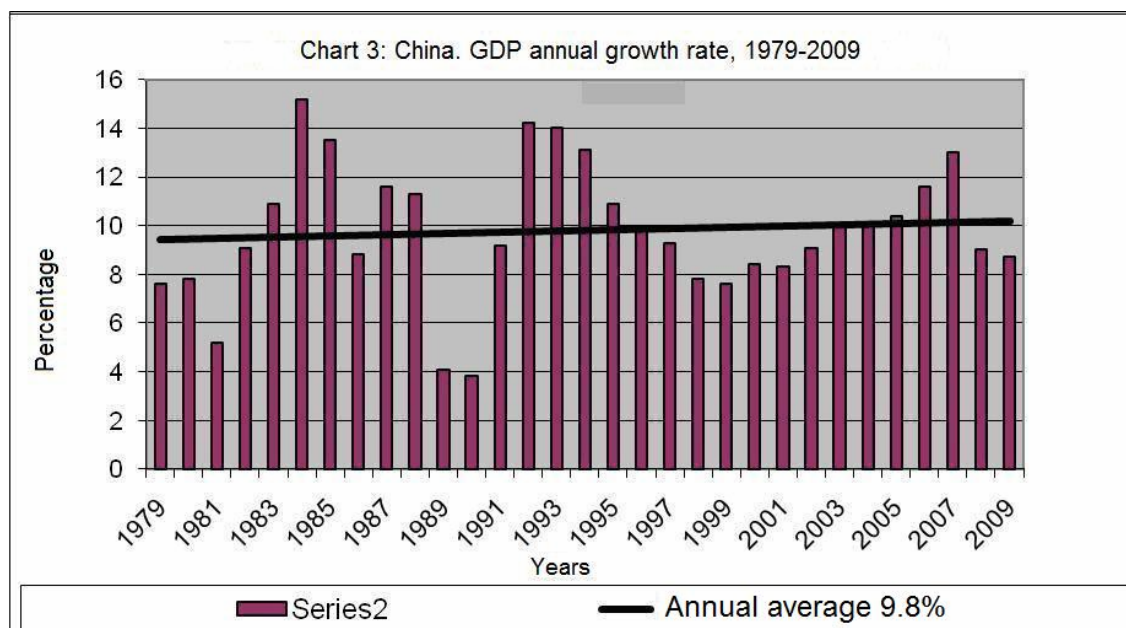
However, the current concern of Chinese leaders is to face employment fluctuations resulting from a decrease in exports and to keep GDP growth rates at 7 to 8% a year. While one of the stated goals of the current leadership is the building of a harmonic society, public incentives rather point to infrastructure for production and production itself instead of development of social security networks (health, retirement and unemployment insurance, among others). There is a significant risk that the world economy could undergo a period of stagnation or even downsizing in some developed economies and, therewith, a new drop in Chinese exports. At the local level, the expectations of Chinese families and businesses are not dire but there is fear of future sustainability of the current recovery. This means skyrocketing savings rates (38%-40% of the available income) to the detriment of domestic consumption.

II. CHINA'S ECONOMIC DYNAMISM AND ITS IMPACT ON LATIN AMERICA AND THE CARIBBEAN

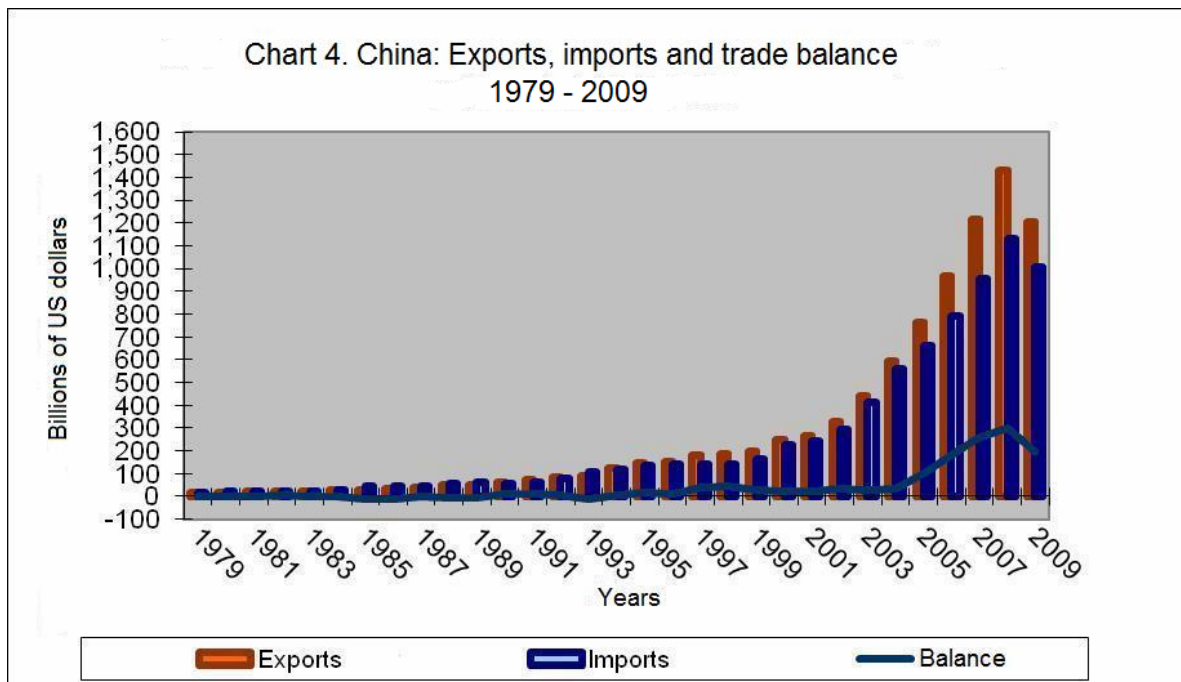
The rapid growth of China has impacted the rest of the world primarily through increasing imports from this Asian country with over one billion inhabitants. Chinese demand for capital, intermediate, and consumer goods has benefited many countries and suppliers of world economies: first those of the Asia-Pacific region, both developed and emerging; then the set of 15 advanced economies in the European Union; then the U.S. and Canada; and in the last decade, increasingly, Latin America and the Caribbean.

Over 30 years starting from 1979, when economic reforms resulting from the decisions of the Third Session of the XI Central Committee of the Communist Party of China adopted in December 1978 (Hu, 1994, 846 -854) began to be implemented, China's GDP at constant prices grew at an annual average of 9.8%, according to data from the National Bureau of Statistics of China, which are not very different from estimates by foreign sources like the International Monetary Fund and others (EIU, *Country Report China*, June 2010: 34). Such a rapid growth was achieved from high rates of increase in gross fixed capital formation (investment), the use of an abundant labour force and the development of production processes in large scale, particularly in the industrial sector.

As shown in Chart 3, over the three decades since 1979, GDP variation (31 years), calculated from one year to another, was always positive, with "modest" growth rates in 1989-1990 and a growth lower than the trend but still above 7 percent in 1997 and 1998. The first mentioned downturn was due to an internal political crisis, followed by an economic and trade embargo imposed on China by several advanced market economy countries. The second slower growth was the result of the severe liquidity, banking and then economic crises suffered by the main regional economic partners of China; in 1998 and 1999, the inclusion of this country into international markets of goods and capital was already in full swing. The 2009 slowdown (a GDP growth of 8.7%, according to Chinese government data) was lower than that caused by the Asian crisis, but was still 1.1 percentage points below the average.



It is clear that trade liberalization has been a key factor for China's ability to place part of their huge production volumes, primarily manufacturing, in foreign markets. They have also been able to access external providers of strategic raw materials; energy, a vital input to support the rapid growth of domestic product; industrial supplies; and capital goods required to generate output. Considering the trend in terms of value of exports, imports and annual trade balances for the period 1979-2009 (Chart 4), China has had sustained and unusual trade surplus for an expanding economy, except in the mid-eighties and three years of the first decade of the XXI century. This accumulation of favourable foreign trade balances for China should have led to adjustments in relative prices of their main macroeconomic variables, particularly the exchange rate, which has not occurred in a significant manner.



Concern that China is following a deliberate mercantilist policy is further exacerbated when, in addition to analyzing the behaviour of its trade balance, the evolution of exports and imports of both factorial and non-factorial services is examined. Considering only the last few years, it can be seen that this growing economy has maintained high surpluses in its current account, even during the most recent world financial and economic crisis. In 2008, notwithstanding the global downturn in demand for imports and a fall in GDP growth from 13% in the previous year to 9%, the current account surplus of China with the outside world reached its highest level: US\$ 426 billion, equivalent to 9.6% of GDP for that year. In 2009, with an estimated GDP growth of 8.7%, the positive balance of China with the rest of the world accounted for 6% of GDP, with a downward trend for 2010 and 2011 (Table 5).

In recent years, as a logical result from that remarkably positive external balance, the People's Bank of China has been accumulating very high international reserves, which represent about 50% of GDP and in 2009 amounted to approximately US\$ 2.4 trillion, the highest in the world (Table 5). China does not reverse its current account surplus with the outside world in proportion to its accumulation of reserves, which could be done in the form of net capital exports, investments and credits. However, a considerable part of their reserves consists of U.S. Treasury bonds, which helps fund part of the external structural deficit of the United States.

The accumulation of international reserves is a common practice in many countries, including some Latin American and Caribbean nations, for protection against the risks of financial volatility that currently characterize the world economy. But the scale of China's reserves relative to GDP exceed those achieved by any other country, and this, combined with the apparent undervaluation of the Renminbi (RMB) against the main world currency and other foreign currencies, justifies the fear of many nations that China will keep on pursuing a mercantilist policy, thereby reducing the possibility that global equilibrium is restored between economies with structural deficits and surpluses.

Although a sudden and strong appreciation of the Yuan, for instance 20 percent, would be insufficient to immediately restore the trade balance between China and the United States or between China and Mexico and Central America, it would certainly hasten a change of strategy in that country, boosting domestic consumption rather than savings and investment, a purpose that the Beijing government itself claims to have among its medium-term objectives.

China has entered the global economy thanks to a growing accumulation of its exchanges with the outside world and their geographical concentration, generally based on complementarity and geographical proximity of business partners, which has placed it among world trade powers.

The distribution of China's foreign trade has changed substantially between 2000 and 2009 but, as shown in Table 6, Asia as a whole remains the main destination of exports from China to the outside world, but with a decrease of 5.8 percentage points in the share of the continent in total Chinese exports (Asia accounted for just over half of these exports in 2000).

The main partners of China, both in terms of its exports and in terms of the share of products sourced from abroad, are the Asian giant's neighbours: Japan, the Republic of Korea (South Korea), Taiwan and the charter members of the Association of Southeast Asian Nations (ASEAN-6). Hong Kong, which since mid-1997 is a special administrative region of China, with total trade and economic autonomy, is an important destination for Chinese exports (accounting for 18% and 14% of the total in 2000 and 2009, respectively). Some of these exports are mainly transient, since a huge volume of goods produced in mainland China are re-exported from that territory to the world.

Latin America and the Caribbean has significantly increased its participation both as a destination market and a supplier for China in the first decade of the XXI century, during which the exports from this nation to our region grew nearly eightfold and imports from LAC increased about 12 times. This has led various specialized agencies, such as ECLAC, to say that, based on "the current growth in demand for our products in the United States, the European Union and the rest of the world and [if] the demand from China grows only half the rate recorded in this decade, this country would overtake the European Union in 2014 and would become the second largest market for exports from the region." (LC/L.3224, 5/2010, 13.) Regardless of the accuracy of this forecast, the problems posed by a commercial interdependence which is usually based on a complementarity between producers of raw materials on the one hand and producers of manufactured products on the other, as is currently the case between LAC and China, will be discussed later in this document.

For the time being, we can say that, in relative terms, Latin America and the Caribbean has increased its share in total exports and imports of China more than any other region, country or territory in the world. However, the region is still a partner of much less importance than, for example, the United States, Japan, Europe or Asia, as shown in the table below.

Table 6 China: Exports and imports by destination and origin, 2000 and 2009
(US\$ billions)

EXPORTS (US\$ billions and percentage)					
	2000		2009		2000-2009¹
TOTAL	249,202	100.0	1,201,647	100.0	18.9
Asia	132,308	53.1	568,557	47.3	17.4
Japan	41,654	16.7	97,911	8.2	9.9
Korea	11,292	4.5	53,680	4.5	18.7
Hong Kong	44,518	17.9	166,217	13.8	15.6
ASEAN-6 ²	9,347	3.7	86,451	7.2	27.7
Africa	5,042	2.0	47,646	4.0	28.0
Europe	45,482	18.3	264,754	22.0	21.4
EU-15 ³	38,192	15.3	209,432	17.4	20.6
LAC⁴	7,185	2.9	56,477	4.7	25.5
USA	52,099	20.9	221,295	18.4	17.3
Oceania and Pacific⁵	3,910	1.57	24,878	2.07	22.6
Rest of the world	7,086	2.84	18,040	1.50	10.8
IMPORTS (US\$ billions and percentage)					
	2000		2009		2000-2009¹
TOTAL	225,094	100.0	1,005,555	100.0	17.9
Asia	141,342	62.8	603,451	60.0	17.3
Japan	41,510	18.4	130,938	13.0	13.5
Korea	23,207	10.3	102,552	10.2	17.8
Hong Kong	9,429	4.2	8,712	0.9	-0.9
ASEAN-6 ²	21,061	9.4	100,917	10.0	18.8
Africa	5,555	2.5	43,330	4.3	25.4
Europe	40,784	18.1	162,139	16.1	16.4
EU-15 ³	30,845	13.7	121,509	12.1	16.3
LAC⁴	5,410	2.4	64,133	6.4	31.3
USA	22,363	9.9	77,755	7.7	14.7
Oceania and Pacific⁵	5,877	2.61	42,612	4.24	24.4
Rest of the world	3,763	1.67	12,135	1.21	13.8

¹ Average annual growth rate, based on a formula of compound interest.

² Brunei, Philippines, Indonesia, Malaysia, Singapore and Thailand.

³ Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, United Kingdom and Sweden.

⁴ Latin America and the Caribbean.

⁵ Australia, New Zealand and other South Pacific islands.

Source: Calculations based on data from: China Statistical Yearbook (CSY), 2001, pp. 591-593, table 17-7; CSY2009, pp. 733-736, table 17-8. For the year 2009: United Nations Commodity Trade Statistics Database, United Nations Statistics Division, in <http://comtrade.un.org/db/>. Data from the General Administration of Customs of China.

In terms of average annual growth rates, LAC and Africa reached the highest increase rates of participation in China's foreign trade for the period 2000-2009, with these being, of course, higher than average rates of China's total exports and imports. For its part, China

was the largest exporter of goods in the world in 2009, followed by Germany and the United States, and the fifth largest exporter of services (LC/L.3224, 5/2010, 9).

III. RAPPROCHEMENT OF LATIN AMERICA AND THE CARIBBEAN TO THE PEOPLE'S REPUBLIC OF CHINA

China's swift economic growth, which has been sustained for more than three decades, offers a great opportunity to all countries and, thus, to our region. Before analyzing this opportunity and the requirements to take advantage of it in an efficient manner, it is convenient to review the times and how the different Latin American and Caribbean countries have approached to that nation. It is clear that purposes in LAC have not been consistent in terms of that rapprochement process.

Short before the accession of the People's Republic of China to the United Nations and the expulsion of "Nationalist China" from the Organization, which was a historical landmark in multilateral diplomacy, and particularly after that event, several countries intensified their processes of establishing relations with Beijing. The Chinese government proposed the so-called Five Principles of Peaceful Coexistence⁶, which this country had temporarily put forward in 1954-55 as a basis for the official coexistence with other governments of varied political-economic organizations. The reference to mutual respect of territorial integrity would serve — and serves — Beijing's government to demand, as a *sine-qua-non* condition, that those countries that wish to establish relations with China to break or not to establish the same kind of relations with Taiwan.

In the seventies, the following Latin American countries took Cuba's (1960) and Chile's (1970) path (the date when these countries established diplomatic relations with China are in parenthesis): Peru (02 October 1971); Mexico (14 February 1972); Argentina (19 February 1972); Guyana (12 June 1972); Jamaica (21 November 1972); Trinidad & Tobago (20 June 1974); Venezuela (28 June 1974); Brazil (15 August 1974); and Suriname (25 May 1976).

A second wave of new diplomatic relations between Latin American countries and China took place in the '80s, when the Asian country began introducing systemic reforms and opening up its economy to the rest of the world. The following countries, chronologically ordered, established diplomatic relations during the decade: Ecuador (02 January 1980); Colombia (07 February 1980); Antigua & Barbuda (01 January 1983); Bolivia (09 July 1985); Grenada (01 October 1985); Nicaragua (07 December 1985) during the first government of Daniel Ortega Saavedra; later, president Violeta Barrios de Chamorro broke relations in 06 November 1990 and on that same day re-established relations with Taiwan; Belize (06 February 1987), which broke relations on 23 October 1989; and Uruguay (03 February 1988).

The last group of LAC countries that established diplomatic relations with the People's Republic of China (some of them broke them later) included: St. Lucia (01 September 1997), which ten years later (30 April 2007) broke relations with China and established relations with Taiwan; Bahamas (25 May 1997); Barbados (30 May 1997); Dominica (23

⁶ These principles were negotiated in 1954 between Zhou Enlai and Jawaharlal Nehru to regulate China-India bilateral relations; they were subsequently adopted at the Africa-Asia Conference in Bandung in 1955 and later promoted by India in the movement of non-aligned countries, under the name of *Panchsheel*: Mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-interference in each other's internal affairs; equality and mutual benefit; and peaceful co-existence.

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March 2004); and Costa Rica (01 June 2007), which had had relations with Taiwan until the last government of Oscar Arias opted for the political realism.

The decision to establish diplomatic relations with China is taken by the countries individually and in response to different reasons. Obviously, rapprochement to the People's Republic of China is not general in our region, where Taiwan has managed to maintain diplomatic relations with 12 countries out of 23 with which that nation has diplomatic ties and follows an active economic diplomatic policy to assure their support. Besides the fact that Taiwan was excluded from the UN because it is not recognized within the organization as the country that calls itself the Republic of China, its formal bilateral ties are limited (see table below).

Table 7. Taiwan: States with which it has diplomatic relations (23)

Latin America and the Caribbean (12)	Rest of the world (11)
<u>Central America (5)</u>	<u>Africa (4)</u>
El Salvador	Burkina Faso
Guatemala	Gambia
Honduras	Swaziland
Nicaragua	Sao Tome and Principe
Panama	<u>Pacific (6)</u>
<u>Caribbean (6)</u>	Kiribati
Belize*	Marshall Islands
Haiti*	Nauru
Dominican Republic	Palau
Saint Kitts and Nevis*	Tuvalu
Saint Lucia*	Solomon Islands
Saint Vincent and the Grenadines*	<u>Europe (1)</u>
<u>South America (1)</u>	The Holy See
Paraguay	

* Full member of the Caribbean Community.

Source: <http://www.taiwan.gov.tw> (Bilateral Ties).

In May 2008 the return to power of Guomindang (GMD) to Taiwan's government, led by president Ma Ying-jeou, who during his electoral campaign promised to reduce tensions with the People's Republic of China, resulted in such a distension between Taipei and Beijing that after a few months of discrete negotiations, the Economic Cooperation Framework Agreement (ECFA) was signed on 29 June 2010 in the municipality of Chongqing (China). The full name of the agreement in Chinese is as follows: 两岸经济合作架构协议 (定)].

This distension will undoubtedly facilitate trade and economic contacts between the People's Republic of China and those countries that do not have diplomatic relations with the Asian country. However, this fact does not change Beijing's position that diplomatic relations can only exist provided that relations with Taiwan are broken, because, in the Chinese government's opinion, accepted within the UN, there is only one China and Taiwan is part of it, although it presently behaves as a *de facto* independent country.

IV. ECONOMIC RELATIONS BETWEEN LATIN AMERICA AND THE CARIBBEAN AND THE PEOPLE'S REPUBLIC OF CHINA

The international financial crisis of 2008 and the deep economic recession that followed highlighted the importance of China for the LAC region as a whole. With a 0.6% fall of world GDP in 2009, global exports of goods shrank by 22.5% over the previous year and exports of goods and services decreased by 20.4%, according to the IMF figures presented in billions of U.S. dollars (WEO, 4/2010, 171). The effect of the worldwide contraction on LAC was devastating: ECLAC estimates that the regional GDP in 2009 was -1.9%, as exports fell 23%, as a result of a 14% slump in prices and a 9% reduction in volume, the worst downturn suffered by the region in 72 years (Preliminary, 5/2010, 12). For their part, imports contracted by 25% (prices and volume fell by 9% and 16%, respectively), a reduction similar to that faced by the region during the debt crisis of 1982 (*ibid.*, p. 15).

Exports from the region contracted in 2009 in all its destinations, including China where they fell, according to official figures in this country, by 10.5%, less than half the total contraction of the Latin American and Caribbean sales to the world. Chinese exports to LAC slowed down by more than 21%, reflecting the negative impact that the 2009 crisis had on the Chinese total foreign trade (see Table 8). Notwithstanding last year's setback, it is clear that, as a trend, this specific Asian market represents a great opportunity for exporters in the region (average annual growth rate of our exports during the period 2000-2009 was 31.3%, as shown under the Chinese Imports from LAC column in Table 6). Additionally, the 2009 trade balance between China and Latin America and the Caribbean was favourable to the latter by nearly US\$ 7.6 billion despite the combined deficit of Mexico and Central America (see Table 10),⁷ persistent for the years 2000 to 2009 (LAC as a whole was in deficit with China in 2000, as shown in Table 9, and again in 2008 by US\$ 118 million, according to the figures in Table 8).

⁷ Exacerbated by Panama's \$6.5-billion deficit to China, which does not reflect the size of that Latin American country but its logistical advantages for re-export of goods.

Table 8. China: Exports and imports by destination and origin, 2008 and 2009
(US\$ billions)

EXPORTS (US\$ billions and percentage)					
	2008		2009		2008-2009 ¹
TOTAL	1,430,693	100.0	1,201,647	100.0	-16.01
Asia	664,119	46.4	568,557	47.3	-14.39
Japan	116,132	8.1	97,911	8.2	-15.69
Korea	73,932	5.2	53,680	4.5	-27.39
Hong Kong	190,729	13.3	166,217	13.8	-12.85
ASEAN-6 ²	95,853	6.7	86,451	7.2	-9.81
Africa	51,240	3.6	47,646	4.0	-7.01
Europe	343,422	24.0	264,754	22.0	-22.91
EU-15 ³	260,879	18.2	209,432	17.4	-19.72
LAC⁴	71,762	5.0	56,477	4.7	-21.30
USA	252,384	17.7	221,295	18.4	-12.32
Oceania and Pacific⁵	25,878	1.81	24,878	2.07	-3.86
Rest of the world	21,888	1.53	18,040	1.50	
IMPORTS (US\$ billions and percentage)					
	2008		2009		2008-2009 ¹
TOTAL	1,132,562	100.0	1,005,555	100.0	-11.21
Asia	702,586	62.0	603,451	60.0	-14.11
Japan	150,600	13.3	130,938	13.0	-13.06
Korea	112,138	9.9	102,552	10.2	-8.55
Hong Kong	12,916	1.1	8,712	0.9	-32.55
ASEAN-6 ²	111,846	9.9	100,917	10.0	-9.77
Africa	55,967	4.9	43,330	4.3	-22.58
Europe	168,059	14.8	162,139	16.1	-3.52
EU-15 ³	126,566	11.2	121,509	12.1	-4.00
LAC⁴	71,644	6.3	64,133	6.4	-10.48
USA	81,360	7.2	77,755	7.7	-4.43
Oceania and Pacific⁵	40,236	3.55	42,612	4.24	5.91
Rest of the world	12,710	1.12	12,135	1.21	

¹ Annual variation rate.

² Brunei, Philippines, Indonesia, Malaysia, Singapore and Thailand.

³ Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, United Kingdom and Sweden.

⁴ Latin America and the Caribbean.

⁵ Australia, New Zealand and other Pacific islands.

Source: Calculations based on data from: *China Statistical Yearbook (CSY)*, 2001, pp. 591-593, table 17-7 and *CSY2009*, pp. 733-736, table 17-8. For the year 2009: United Nations Commodity Trade Statistics Database, United Nations Statistics Division, in <http://comtrade.un.org/db/>. Data from the General Administration of Customs of China.

Table 9. China's foreign trade by regions of the world and Latin American economies, 2000 and 2009 *

Region and country	2000			2009		
	Total	Exports	Imports	Total	Exports	Imports
Total	474,296.28	249,202.55	225,093.73	2,207,201.99	1,201,646.76	1,005,555.23
Asia	273,650.11	132,308.23	141,341.88	1,172,007.69	568,556.95	603,450.74
Africa	10,597.08	5,042.01	5,555.07	90,976.55	47,646.46	43,330.09
Europe	86,265.64	45,481.56	40,784.08	426,893.16	264,753.95	162,139.21
USA and Canada	81,393.10	55,273.51	26,119.59	328,751.41	238,970.14	89,781.27
Oceania-P.	9,787.57	3,910.22	5,877.35	67,489.70	24,877.53	42,612.17
LAC	12,595.49	7,185.21	5,410.28	120,610.04	56,477.44	64,132.60
Antigua & B.				494.65	493.69	0.96
Argentina	1,540.29	610.30	929.99	7,788.91	3,482.89	4,306.02
Aruba				11.85	11.70	0.15
Barbados	3.05	3.04	0.01	93.78	91.55	2.23
Bahamas				422.69	422.54	0.15
Belize				33.04	33.03	0.01
Bolivia	16.84	4.68	12.16	255.20	129.71	125.49
Brazil	2,844.99	1,223.55	1,621.44	42,399.50	14,118.52	28,280.98
Caiman Isl.				17.99	17.99	-----
Chile	2,122.03	783.52	1,338.51	17,718.99	4,928.47	12,790.52
Colombia	188.13	155.97	32.16	3,371.25	2,396.43	974.82
Dominica	60.16	57.70	2.46	23.48	22.32	1.16
Costa Rica			26.51	3,184.27	537.82	2,646.45
Cuba	313.94	232.80	81.14	1,546.60	972.16	574.44
Curacao	33.28	33.28		-----	-----	-----
Dominican R	76.30	75.41	0.89	690.11	592.01	98.10
Ecuador	155.00	74.87	80.13	1,766.72	1,003.56	763.16
Grenada				3.98	3.95	0.03
Guatemala	143.22	138.62	4.60	682.15	658.82	23.33
Guyana				69.83	59.08	10.75
Haiti				150.37	147.49	2.88
Honduras	62.28	62.17	0.11	262.50	212.16	50.34
Jamaica	79.01	49.45	29.56	218.55	196.99	21.56
Mexico	1,823.53	1,335.25	488.28	16,180.89	12,298.99	3,881.90
Montserrat				0.17	0.04	0.13
Nicaragua	43.44	43.09	0.35	196.51	193.26	3.25
Panama	1,291.18	1,290.16	1.02	6,551.17	6,522.36	28.81
Paraguay	89.18	85.96	3.22	541.37	513.92	27.45
Peru	704.59	144.33	560.26	6,422.76	2,098.87	4,323.89
Puerto Rico	68.63	57.21	11.42	-----	-----	-----
St. Lucia				6.97	6.79	0.18
St. Vincent				81.89	81.79	0.10
El Salvador	63.13	62.64	0.49	260.92	257.45	3.47
Suriname	11.45	10.64	0.81	108.07	96.16	11.91
Trinidad & T.	27.18	26.74	0.44	347.36	244.05	103.31
Uruguay	344.36	243.02	101.34	1,533.37	819.61	733.76
Venezuela	351.28	256.50	94.78	7,152.18	2,811.27	4,340.91

* US\$ billions.

Source: National Bureau of Statistics of the People's Republic of China (NBS), China Statistical Yearbook 2001, pp. 591-593 (for the year 2000) and United Nations Commodity Trade Statistics Database, United Nations Statistics Division, in <http://comtrade.un.org/db/> (by country, year 2009). Data from the General Administration of Customs of China.

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Based on statistics from China's customs service, a comparison is presented in absolute figures of this country's foreign trade with the world by region, and in the case of Latin America and the Caribbean, by countries, in 2000 and 2009 (Table 9). There you can see the growth in value terms, expressed in millions of U.S. dollars, occurred in the Sino-Latin American trade of the decade. Imports reflect sales to China by other countries and groups of countries, and vice versa; exports are purchases from the Asian country by the rest of the world. From this information, LAC trade with China is regrouped into sub-regions and blocks, in order to distinguish the relative importance of each component (Table 10). The result confirms the trends estimated by ECLAC, particularly what happened in the first decade of the XXI century (LC/L.3224, 5/2010, 15). In 2009, according to Chinese statistics, Mexico, Central America (excluding Panama) and the Caribbean account for a deficit of US\$ 10.8 billion to China, with a negative balance of US\$ 8.4 billion for Mexico alone. In contrast, South America reached a surplus of US\$ 24.4 billion, with Brazil generating a trade surplus of over US\$ 14 billion.

According to total trade figures for China (shown in Table 9), the ten largest trading partners of this country in Latin America and the Caribbean in 2009 (with the proportion of total trade between LAC and China in parentheses) were: Brazil (35.2%), Chile (14.7%), Mexico (13.4%), Argentina (6.5%), Venezuela (5.9%), Panama (5.4%), Peru (5.3%), Colombia (2.8%), Costa Rica (2.6%), and Ecuador (1.5%). All these countries have diplomatic relations with China, with the exception of Panama, which has relations with Taiwan. In this particular case, Beijing makes use of the Panama Canal, which links the Atlantic and Pacific oceans, for re-export operations on a large scale. In Costa Rica, the high volume of trade recorded in 2009 was probably due to the fact that this nation had recently established diplomatic relations with China (June 2007), which immediately bought more than US\$ 2 billion of goods (in 2008) as a way of rewarding the only member of the subregion which has distanced itself from Taiwan.

Excluding Costa Rica and Panama, which maintains no diplomatic relations with China, eight countries accounted for 85.2% of total trade (exports plus imports) between LAC and China in 2009 and, along with Cuba, these are the nations which have remained as major economic and political partners of China over this decade. There is a major imbalance in trade between Mexico and Central America with the Asian country, which is due to the fact that the economies of both parties are competing rather than complementary. This asymmetry is even more acute when using foreign trade statistics of Latin America and the Caribbean.

Table 10. LAC trade with China by groups, 2009, according to Chinese statistics
(US\$ millions)

Region/country	Exports	Imports	Balance
Mexico and CA¹	6,637.55	20,680.86	-14,043.31
Mexico	3,881.90	12,298.99	-8,417.09
Costa Rica	2,646.45	537.82	2,108.63
Caribbean²	828.10	3,574.15	-2,746.05
Cuba	574.44	972.16	-397.72
South America	56,667.00	32,303.25	24,363.75
MERCOSUR ³	33,348.21	18,934.94	14,413.27
Brazil	28,280.98	14,118.52	14,162.46
Argentina	4,306.02	3,482.89	823.13
Andean Community ⁴	6,187.36	5,628.57	558.79
Colombia	974.82	2,396.43	-1,421.61
Ecuador	763.16	1,003.56	-240.40
Peru	4,323.89	2,098.87	2,225.02
Chile	12,790.52	4,928.47	7,862.05
Venezuela	4,340.91	2,811.27	1,529.64
Total LAC	64,132.65	56,558.26	7,574.39

¹ Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. Excluding Panama, which in 2009 had a deficit of US\$ 6.49 billion with respect to China and whose imports are of a transitional nature, the deficit of Mexico and Central America to China drops to US\$ 7.55 billion.

² CARICOM (including 15 full members and five associate members) plus Cuba and the Dominican Republic.

³ Argentina, Brazil, Paraguay and Uruguay.

⁴ Bolivia, Colombia, Ecuador and Peru.

Source: Table 9, inverting columns, so that Chinese exports to Latin America and the Caribbean correspond to the region's imports, and vice versa.

Mexico has signed several bilateral agreements with China over 38 years, but nothing approaching a preferential trade agreement. For Mexico, competition with China in its biggest market, the United States, with which Mexico maintains a free trade area that also includes Canada, has become an outspoken rivalry. At least that is the view of Mexican and/or Mexico-based producers and exporters of goods similar to those exported by China. In mid 2003, this country overtook Mexico as the second largest supplier to the U.S. market, and last year they displaced Canada, the former top supplier (U.S. Census Bureau, 06, 2010, 18 and 20).⁸ This, coupled with the massive entry of Chinese products such as footwear, textiles and clothing, electronics and other consumer goods into the Mexican market, has caused a strong rejection of any form of liberalization of trade with China among Mexico's private manufacturing sector, and some industrial chambers such as footwear, textiles and clothing have even urged the Mexican government to keep from granting China a market economy treatment and to impose high anti-dumping taxes on imports from that country, many of which apparently come from ports and territories of third economies.

⁸ In 2009, China was the number 1 supplier to the U.S. and the country to which the U.S. had the largest trade deficit. Canada was the 2nd largest exporter while Mexico ranked as the 3rd top supplier and the 2nd largest surplus to the U.S.

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According to calculations of Mexico, the trade imbalance with China has been increasing steadily in recent years. In 2008, for every dollar exported from Mexico, Chinese goods worth US\$ 16.97 were bought, and in 2009, the year in which the global crisis hit harder, the ratio was US\$ 1 to US\$ 14.68. These asymmetries are lower if we consider the Chinese figures, as shown in Table 11, but are still within the orders of magnitude of 1 to 3 and 1 to 4 (1 to 3.17 in 2009 and 1 to 3.76 in 2008). The differences in the way figures are recorded in Mexico and China are enormous, both for exports and imports, with an undervaluation of the Chinese figures for the latter (Mexico imports from China) which is generally attributed to the way of factoring in the triangulation of trade. In Mexico, all Chinese products are accounted for as such, no matter where they come from, and only Mexican exports sent directly to China are reported, ignoring those first sent to another country and then re-exported to the Asian country.

What should be noted here is that during the period 2005 to 2009, more than a third of Mexico's exports to China consisted of metallic ores at the primary processing level as well as parts for boilers and related machinery, while Mexico imported a great variety of intermediate and final consumer goods from China.

Table 11. Exports (and imports) from Mexico to China
(US\$ millions)

	2005	2006	2007	2008	2009
Total exports to China (from the standpoint of Mexico\)	1,135.55	1,688.11	1,895.02	2,044.76	2,215.32
Total exports to China (from the standpoint of China)	2,225.29	2,607.10	3,265.31	3,690.25	3,881.90
1) Ores, slag & ash (26)	101.47	132.97	287.50	477.20	552.92
Of which:					
Copper & concentrates (2603)	41.18	64.16	155.16	264.75	264.72
Lead & concentrates (2607)	0.43	9.12	31.34	56.20	102.61
Zinc & concentrates (2608)	4.69	30.66	43.35	63.32	40.47
2) Refined copper and copper alloys, unwrought (7403)	45.27	93.39	61.99	119.47	137.97
3) Nuclear reactors, boilers, machinery, etc. (84)	295.56	403.28	362.75	143.04	123.96
Sum 1) + 2) + 3)	442.30	629.64	712.24	739.71	814.85
1) to 3) as percentage of total exports to China	(38.95)	(37.30)	(37.58)	(36.18)	(36.78)
Total imports from China (from the standpoint of Mexico)	17,696.35	24,438.28	29,743.66	34,690.32	32,528.97
Total imports from China (from the standpoint of China)	5,537.69	8,823.55	11,717.65	13,866.49	12,298.99

Source: COMTRADE, in <http://comtrade.un.org/db/>

As regards Costa Rica, significant differences can also be seen in the numbers depending on the source, but only in relation to exports from this country to China, since the data generated in the Asian country are about five times greater than the numbers submitted by the customs service of Costa Rica. With the calculations made in China, it seems that this Central American country enjoyed a large trade surplus against the People's

Republic. From San Jose's perspective, the bilateral trade is at a situation close to balance, with a Costa Rica deficit of US\$ 237 million for the period 2005-2009 (exports totalled US\$ 2,79 billion, slightly higher than the reported exports from China, while imports totalled US\$ 3,03 billion). Costa Rican exports include electrical and electronic equipment, particularly integrated circuits and microassemblies, while imports from China consist of a wide variety of goods.

Table 12. Exports (and imports) from Costa Rica to China
(US\$ millions)

	2005	2006	2007	2008	2009
Total exports to China (from the standpoint of C. R.√)	240.70	556.92	835.08	612.97	552.02
Total exports to China (from the standpoint of China)	922.08	1,747.27	2,306.64	2,270.52	2,646.45
1) Electrical and electronic equipment (85)	200.12	506.51	702.54	454.15	418.63
Of which:					
Electronic integrated circuits and microassemblies (8542)	180.62	483.25	635.81	448.26	413.57
1) as percentage of total exports to China	(83.14)	(90.95)	(76.14)	(73.13)	(74.92)
Total imports from China (from the standpoint of C. R.)	350.22	550.65	758.44	865.44	509.76
Total imports from China (from the standpoint of China)	228.77	408.75	568.23	619.16	537.82

Source: COMTRADE, in <http://comtrade.un.org/db/>

South America accounts for the bulk of foreign trade between LAC and China, with 88% of total exports from the region to the Asian country in 2009, and 57% of 2009 imports from that nation, which according to Chinese statistics generates a considerable trade surplus (Table 10). The economy in this subregion is clearly complementary to the Chinese economy, which basically takes in food, raw materials and oil. Brazil is by far the largest trading partner of China in South America, although according to Brazilian data, sales to China are much lower than those reported by China's statistics, while the value of imports does not differ much, whether seen from either country. According to sources in Brazil, this nation would be heavily in deficit in its trade relations with China rather than in surplus, as shown in the table below.

Table 13. Exports (and imports) from Brazil to China
(US\$ millions)

	2005	2006	2007	2008	2009
Total exports to China (from the standpoint of Brazil)	1,324.43	2,003.90	3,581.13	5,054.73	3,482.89
Total exports to China (from the standpoint of China ^v)	6,835.00	8,402.37	10,748.81	16,403.04	20,190.83
1) Iron ores and concentrates, roasted iron pyrites (2601)	1,784.63	2,629.46	3,710.29	4,886.12	7,010.66
2) Soya beans (1201)	1,716.92	2,431.57	2,831.86	5,324.05	6,342.96
3) Petroleum oils and oils obtained from bituminous minerals (2709)	541.63	835.85	839.90	1,702.46	1,338.30
4) Chemical wood pulp, soda or sulphate, other than dissolving grades (4703)	230.10	347.78	385.55	614.81	891.96
5) Soya-bean oil (1507)	169.19	113.56	318.34	829.88	406.95
Sum 1) to 5)	4,442.47	6,358.22	8,085.94	13,357.32	15,990.83
1) to 5) as percentage of total exports to China	(65.00)	(75.67)	(75.23)	(81.43)	(79.20)
Total imports to China (from the standpoint of Brazil)	5,354.52	7,989.34	12,617.75	20,040.02	15,911.14
Total imports to China (from the standpoint of China)	4,827.21	7,380.11	11,398.47	18,807.46	14,118.52

Source: COMTRADE, in <http://comtrade.un.org/db/>

In the cases of Chile and Venezuela, statistical differences also exist between data from Santiago and Beijing, with a marked overvaluation of exports to Chile reported by China and more similar numbers in terms of China's imports from Chile. Also according to Chinese sources, Chilean exports consist of refined copper, unwrought copper alloys, chemical wood pulp, and iron ores, concentrates and roasted iron pyrites, with these products representing more than three-quarters of sales of Chilean goods to China. For its part, according to Chinese statistics, over 90% of exports from Venezuela to the Asian country consist of petroleum oil and petroleum distillates, iron ores and concentrates, and ferrous products (Tables 14 and 14A).

Table 14. Exports (and imports) from Chile to China
(US\$ millions)

	2005	2006	2007	2008	2009
Total exports to China (from the standpoint of Chile)	4,780.15	5,139.97	10,202.80	9,275.12	12,486.17
Total exports to China (from the standpoint of China)	4,991.54	5,735.87	10,280.37	11,172.81	12,790.52
1) Refined copper and copper alloys, unwrought (7403)	2,014.99	2,143.94	5,205.43	5,214.19	7,369.70
2) Copper ores and concentrates (2603)	1,580.57	2,287.35	2,984.82	3,258.65	2,050.86
3) Chemical wood pulp, soda or sulphate, not dissolving (4703)	382.77	356.02	699.65	825.50	939.75
4) Iron ores and concentrates, roasted iron pyrites (2601)	135.41	173.91	276.65	550.36	571.26
Sum 1) to 4) (from the standpoint of China)	4,113.74	4,961.22	9,166.55	9,848.70	10,931.57
1) to 4) as percentage of total exports to China	(82.41)	(86.49)	(89.17)	(88.15)	(85.47)
Total imports from China (from the standpoint of Chile)	2,424.30	3,357.91	4,746.82	6,648.90	4,997.26
Total imports from China (from the standpoint of China)	2,149.48	3,109.03	4,432.22	6,186.80	4,928.47

Source: COMTRADE, in <http://comtrade.un.org/db/>

Table 14A. Exports (and imports) from Venezuela to China
(US\$ millions)

	2005	2006	2007	2008	2009
Total exports to China (from the standpoint of Venezuela)	216.14	119.25	n.a.	270.30	304.01
Total exports to China (from the standpoint of China ¹)	1,234.12	2,637.96	3,052.88	6,567.06	4,340.91
1) Petroleum oils, oils from bituminous minerals, crude (2709)	388.84	1,257.50	1,313.74	3,653.81	1,988.19
2) Petroleum distillates (2710)	185.90	990.58	1,220.58	2,127.92	1,724.17
3) Iron ores and concentrates, roasted iron pyrites (2601)	n.a.	n.a.	370.63.	588.72	253.36
4) Ferrous products from reduction of iron ore, pure iron (7203)	145.74	39.54	n.a.	75.16	141.16
Sum 1) + 2) + 3) + 4)	720.48	2,287.62	2,904.95	6,445.61	4,106.88
1) to 4) as percentage of total exports to China	(58.38)	(86.72)	(95.15)	(98.15)	(94.61)
Total imports from China (from the standpoint of Venezuela)	808.43	1,652.37	2,076.29	4,527.52	4,034.46
Total imports from China (from the standpoint of China)	907.85	1,698.02	2,838.50	3,365.98	2,811.27

Source: COMTRADE, in <http://comtrade.un.org/db/>

In addition to trade, the financial relations between LAC and China have grown rapidly in recent years, but still represent a small fraction of total transactions of this type made by the two sides with the rest of the world. From a cumulative total of foreign direct investments (FDI) of US\$ 183.97 billion that China had made abroad until end 2008, US\$ 173 million went to Mexico, which made this country the main destination of these operations in LAC, of course excluding tax havens such as the Bahamas, the Cayman Islands and the British Virgin Islands. In terms of direct investments from Latin American countries in China, excluding tax havens, Brazil is number one with US\$ 31.6 and US\$ 38.8 million invested in China in 2007 and 2008, respectively. Then comes Argentina with direct investments of US\$ 11.1 and US\$ 12.7 million, followed by Chile with US\$ 7.19 and US\$ 4.7 million, and Mexico with US\$ 5.66 and US\$ 3.85 million in 2007 and 2008, respectively (CSY, 2009, 752).

In the short to medium term it is unlikely that Latin America and the Caribbean capture important volumes of China's total investment abroad, because the primary interest of the People's Republic is to maintain an economic and technological exchange with the most advanced economies, and then to ensure the supply of strategic raw materials, the sources of which China seeks to control. Additionally, Chinese companies investing abroad still do so in a limited manner. For example, foreign investments reached US\$ 48 billion in 2009, which equals 1% of the Chinese GDP, while in the same year American companies invested US\$ 340 billion in the rest of the world, or 2.4% of the U.S. GDP. Based on estimates from combined statistics, Chinese corporations had invested about 4% of

GDP (some US\$ 211 billion) abroad in 2009, while the U.S. had invested a total of US\$ 3.2 billion, or 23% of GDP (Miller, Jul-Aug/2010, 102).

V. DIFFERENCES AS REGARDS RECIPROCAL RELATIONS STRATEGIES BETWEEN CHINA AND LATIN AMERICA AND THE CARIBBEAN

China represents a great market opportunity and also as a provider of various goods and services for LAC, including employment, consultancy and design. In financial terms, China is emerging as a major capital exporter around the world, and it is by far the largest recipient of FDI among all developing economies. It even competes with the most developed economies, among which it is only behind the United States.

During the period 1979-2008, China received a total of US\$ 852.61 billion in FDI (CSY, 2009, 745), an annual average of US\$ 30.4 billion, based on minimum thresholds in the early years of this period. Regarding its relationship with LAC, China has competed with Latin American and Caribbean economies in attracting global capital and has acted as a centre of attraction similar to Western Europe in the late 19th and early 20th centuries. On the one hand, it has been an importer of food and strategic raw materials, including hydrocarbons, and on the other side, it has sold manufactured goods. China is therefore a formidable trade competitor of the LAC economies.

The LAC countries have not yet deployed any collective strategy in their rapprochement to the new global economic centre of attraction, even the 21 nations that have diplomatic relations with China. Each of them has implemented its own policies with China, while this nation is actually building a comprehensive diplomatic scheme for the region. This endeavour is not difficult because it bases upon political and economic unity, while LAC is a mosaic of different national interests and conditions, with just a few blocs forming. Due to this significant difference between Latin America and the Caribbean as a whole and China, it is easy to assess the evolution of mutual cooperation from the perspective of China, even though many cooperation initiatives have stemmed from initiatives of Latin American and Caribbean countries.

First, it should be noted that China has established strategic partnerships with Argentina, Brazil, Mexico and Peru; as well as partnerships for mutual development with Venezuela; partnerships for comprehensive cooperation with Chile; a friendly partnership for common development with Jamaica; a strategic mechanism for dialogue with Brazil and Mexico, and other international political consultation mechanisms among the foreign ministries of the 21 countries that have diplomatic relations with it.

Chile, Brazil, Argentina, Venezuela, Trinidad and Tobago and Jamaica granted China the status of market economy, something Beijing seeks diligently in order to ensure that, when Latin American and Caribbean countries conduct any investigation into presumed unfair trade, they can do so in China, rather than in third economies. In spite of such status, which Mexico and other major trading partners in the region are reluctant to grant, the largest number of cases of anti-dumping investigations against China, started between the fourth quarter of 2008 and the fourth quarter of 2009, was initiated by the countries that granted China the status of market economy. Twenty out of 33 investigations were launched by Argentina; 6 out of 11 in Brazil, and 2 / 2 in Mexico, which has not granted China the status of market economy (LC/L.3224, 5/2010, 18).

Chile and Peru were the first two LAC countries to sign two agreements on free trade with China. The first of such agreements entered into force on 18 November 2005 and the second on 1 March 2010. In Mexico, which has a trade deficit with China, there are simply no conditions to enter into this type of formal preferential agreements. In some countries in Latin America and the Caribbean, possible negotiation of free trade agreements with

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China is likely to be subject to restrictions to arrange preferential terms with third parties, which are parties to agreements under subregional integration blocs. For now, Beijing has undertaken talks and incipient forms of multilateral cooperation with the following subregional groups: MERCOSUR, the Andean Community, the Central American Common Market (CACM) and CARICOM.

As regards its relationships with the Caribbean, China started a comprehensive diplomatic rapprochement to this region in 2004, when Beijing prepared a multilateral forum that was held in February 2005, in a first ministerial meeting in Kingston cosponsored by the governments of China and Jamaica. Then vice president of the People's Republic of China, Zeng Qinghong, attended the meeting, in which China and 11 Caribbean countries signed an *action plan for economic and trade cooperation* between China and the Caribbean⁹, which shall be reviewed every three or four years at ministerial or higher level meetings to be held alternately in China and a Caribbean country.

The "Second Forum on China-Caribbean Economic and Trade Cooperation" was held on 7 and 8 September 2007 in the Chinese city of Xiamen, Fujian province, with the participation of representatives of 10 countries¹⁰ designated as Caribbean that have diplomatic relations with China, as well as delegates from the Dominican Republic, Haiti and St. Lucia, which have diplomatic relations with Taiwan, and members of the CARICOM Secretariat and the Caribbean Development Bank. The meeting was co-chaired by Chinese Vice Premier Wu Yi, who retired in March 2008, and that of Barbados, Mia Mottley. In the final declaration of this meeting, various activities in the area of trade and economic cooperation were described, including those implemented by parallel forums such as the China-Caribbean Business Council. The document also stressed that China would provide soft loans for RMB 4 billion (US\$ 547 million at the exchange rate in effect at the end of 2007) to Caribbean partners for the construction of infrastructure, natural resources development, industry and tourism.

In parallel, since 2006 the Foreign Ministries of China and the 10 Caribbean countries that have diplomatic ties with the Asian country made rounds of consultations to review regularly the progress made in political and economic cooperation, among others. During the fourth round of consultations, which took place in the Bahamas in May 2010, it became clear that the next step of this cooperation would be to give legal status to some type of regional agreement between China and CARICOM and its specialized and affiliated agencies. The issue curtailing progress in such direction is the fact that out of the 15 full members of the Caribbean Community — one of them is the British territory of Montserrat — five still maintain diplomatic relations with Taiwan and, even though in the past two years tensions between the island and China have eased, the government of this country would not accept entering into an agreement with the Caribbean Community under such circumstances.

A newly emerging yet promising sector in Sino-Latin American cooperation is space, which the Chinese government's "white book" of November 2008 referred to briefly under the heading III-2 "Scientific, technological and educational cooperation" (Document, 11/2008, 4). Cooperation in the space area started in the late eighties with the Sino-Brazilian programme called *China-Brazil Earth Resources Satellite* (CBERS). Under this programme of bilateral cooperation three satellites have been launched into the space

⁹ For the Caribbean, the Prime Ministers of Jamaica (host country), Antigua and Barbuda and Dominica, and the vice presidents of Cuba and Suriname attended the meeting. The remaining countries were represented by ministers.

¹⁰ Antigua and Barbuda, Bahamas, Barbados, Cuba, Dominica, Grenada, *Guyana*, Jamaica, *Suriname* and Trinidad and Tobago (countries in italics are geographically located in South America).

in 1999, 2003 and 2007. A fourth satellite is scheduled to be launched in mid-2011. The cost of these operations is covered in approximately 30% by Brazil and 70% by China (Ellis, 9/7/2010, 5). As regards Venezuela, China agreed in October 2008 to launch to fixed orbit the first wholly Chinese-built satellite, made by *China Great Wall Industries Corporation* (中国长城工业总公司).

Additionally, China has engaged in space cooperation endeavours with Bolivia, Peru, Argentina and Chile, with different degrees of complexity and ways of financing. With other countries, such as Mexico, there have been some initiatives for cooperation in this area of undoubted technological sophistication. But with Brazil, an emerging regional power that has a multidimensional space programme, Beijing maintains the most diverse partnership in this field. From there, China is beginning to make headway in LAC in terms of relationships in aeronautics and astronautics, competing with traditional suppliers such as the United States, France and other European countries.

At the multilateral level, in addition to the above sub-regional dialogue mechanisms, China has come closer to our region by joining, as a permanent observer, the Organization of American States (25 May 2004) and the International Development Bank as non-borrowing member (January 2009). Besides this, China is involved in inter-regional forums that are less institutionalized but extremely important, such as the Asia-Pacific Economic Cooperation (APEC), along with Mexico, Chile, Peru, and Taiwan, the latter under the name of Chinese Taipei, which opens another path for dialogue at the highest possible political level between the economies mentioned, and the Group of 20, where Argentina, Brazil and Mexico participate on behalf of LAC along with China.

In recent years, Brazil, Russia, India and China have acted together in international forums and on key policy issues for Brazil and India, such as the likely reform of the UN and its Security Council, in which both countries aspire to permanent membership. The first summit meeting of this group of four states, known by the acronym BRIC, was held on 16 June 2009 in Yekaterinburg, Russia, where they issued a joint declaration for the creation of a multipolar world order, which turned them into a voice apparently challenging the U.S. hegemony.

In order to deal with bilateral issues, Beijing has embassies in each of the capitals of the 21 LAC countries with whom China has diplomatic relations, and six general consulates, located in Rio de Janeiro and Sao Paulo (Brazil), Santa Cruz (Bolivia), Barranquilla (Colombia), Guayaquil (Ecuador) and Tijuana (Mexico). China also has a Business Development Bureau in Port-au-Prince, Haiti, a country with whom Beijing has no diplomatic ties but to which it has provided assistance in difficult times, such as the tragic earthquake of 2010. Further, Beijing provides a police force to the United Nations Stabilization Mission in Haiti (MINUSTAH).

LAC diplomatic representations in China, the Special Administrative Region of Hong Kong and the Taiwan area are varied, as described below:

Table 15. Representations and offices of LAC countries in the People's Republic of China and its special regions

Argentina	Embassy (Beijing); Consulate General and Trade Promotion Centre (Shanghai); Consulate General (Guangzhou); Consulate General (Hong Kong); Trade and Cultural Office (Taipei).
Bahamas	Embassy (Beijing); Honorary Consulate (Hong Kong).
Barbados	Honorary Consulate (Hong Kong).
Bolivia	Embassy (Beijing); Trade Representative (Taipei)
Brazil	Embassy (Beijing); Consulate General (Shanghai); Consulate General (Hong Kong); Interests Section (Taipei).
Costa Rica	Embassy (Beijing).
Chile	Embassy (Beijing); Consulate (Shanghai); Consulate General (Hong Kong).
Colombia	Embassy (Beijing); Proexport Office (Beijing); Consulate General (Hong Kong).
Cuba	Embassy (Beijing); Consulate General (Shanghai); Consulate General (Guangzhou); Honorary Consulate (Hong Kong).
Dominica	Consulate (Beijing)
Ecuador	Embassy (Beijing); Consulate General (Shanghai); Consulate General (Guangzhou).
Grenada	Honorary Consulate (Hong Kong)
Guyana	Embassy (Beijing)
Jamaica	Embassy (Beijing); Honorary Consulate (Shanghai); Honorary Consulate (Hong Kong).
Mexico	Embassy (Beijing); Pro-Mexico Office (Beijing); Consulate General (Shanghai); Consulate General (Guangzhou); Consulate General (Hong Kong); Pro-Mexico Office (Taipei).
Peru	Embassy (Beijing); Consulate General (Shanghai); Consulate General (Hong Kong); Trade Office (Taipei).
Suriname	Embassy (Beijing); Honorary Consulate (Hong Kong).
Trinidad and Tobago	Honorary Consulate (Hong Kong).
Uruguay	Embassy (Beijing); Consulate General (Shanghai); Honorary Consulate (Hong Kong).
Venezuela	Embassy (Beijing); Consulate General (Hong Kong).
LAC countries which do not have diplomatic relations with China	
Belize	Trade Office (Hong Kong)
Haiti	Haiti's Mission to Beijing (Trade Office)
Panama	Trade Representative Office (Beijing); Maritime Authority of Panama (Shanghai); Trade and Economic Office (Hong Kong)
Dominican Rep.	Trade Development Office (Beijing); Trade Development Office (Hong Kong).

Source: Secretariat of Foreign Affairs of Mexico-Embassy of Mexico in China.

As noted, out of the 21 countries having diplomatic relations with China only 15 have an embassy in Beijing. Each of the nation states of our region is pursuing its own bilateral policies with China, and in some cases they have some sporadic link with their hemispheric neighbours. In addition, many LAC countries have one or more chambers of commerce, industry or business specializing in China (this is true at least for Mexico and a large part of South America), given governmental institutions and instruments such as bilateral intergovernmental commissions with China and the like, which virtually all governments in the region have established to develop cooperation with China.

In light of the increasing interdependence between China and Latin American and Caribbean producers of raw materials and energy, the size of some import markets, such as Mexico and Brazil, as well as shared political interests in international and regional forums, the Chinese government produced a "white book" that was published in November 2008 to disseminate China's views on international Sino-Latin American relations. The *China's Policy Paper on Latin America and the Caribbean* (hereinafter the Paper) highlights the general objectives of Chinese policy toward Latin America and the Caribbean: "promote mutual respect and mutual trust and expand common ground; deepen cooperation and achieve win-win results; and draw on each other's strengths to boost common progress and intensify exchanges" (Paper, 11/2008, Part III, 2). After the definition of objectives, the Chinese text is emphatic: "The one China principle is the political basis for the establishment and development of relations between China and Latin American and Caribbean countries and regional organizations" (Paper, 11/2008, Part III, 3). The message is clear: There may be some cooperation and trade with LAC countries that do not recognize Taiwan as part of China, but sporadically and to a certain limit. Panama appears to be an exception in the scope of its trade with China and re-export of Chinese products.

The paper describes four areas of "omnidirectional" cooperation: politics, which encompasses the exchange with governments, legislatures, political parties, bilateral consultation mechanisms, cooperation in international affairs and contacts with local governments; general and sectoral economy, which in turn include trade, investment and financing, customs cooperation, etc.; culture and society, with eleven elements, including cooperation in environmental protection and climate change, humanitarian assistance in natural disasters, and poverty alleviation; and finally, cooperation on peace, security and judicial affairs, which includes military, judicial and police exchanges and cooperation, and cooperation in "non-traditional security" (fight against terrorism). Part V of the Paper refers to China's relations with regional organizations in LAC and is very general and brief.

It should be noted that by 2008, China had published only two similar documents to the paper related to LAC: one referred to the European Union and the other to Africa.

VI. CONCLUSIONS AND RECOMMENDATIONS

In the first decade of the XXI century, two economic trends arouse the interest of everyone: the consolidation of China as a global centre of influence and the very real possibility that, in a few years, China would become the second largest market for Latin America and the Caribbean. The growing trade interdependence between this part of the Americas and the economy that has registered the longest period of fast growth in history is more the result of the dynamics of this growth than the creation and implementation of institutional and joint cooperation mechanisms among the most active countries in LAC in terms of their rapprochement to China.

However, for more than 30 years, governments of Latin American and Caribbean countries that established diplomatic relations with the People's Republic of China in the early '70s (with the exception of Cuba that established relations with China in 1960) have closed agreements that represent a wide network of instruments and mechanisms for dialogue and action. The mere sum of these bilateral cooperation agreements, including some multilateral ones, implies that the growing trade, financial, technological and economic exchange taking place in the XXI century is the result of that network of intergovernmental agreements between Latin America and China. However, the reality is different.

The unique change of the Chinese economy, from a centrally planned system to a market economy but with a dominant presence of the State in the economic life, and from an almost autarchic growth model to an open one, has led to the adoption of institutional and governmental mechanisms by any country aiming at intensifying economic ties with China. All of them, without exception, had to accept the condition set by the Chinese government to adhere to the One-China principle in order to establish bilateral diplomatic relations: that is, no formal intergovernmental ties may exist simultaneously with China and Taiwan.

While the political factor is fundamental to make progress in the economic interdependence with China, strictly economic factors are also crucial, considering that the Asian country has been recently turning into a market economy. The size of markets, the relative comparative advantages, geographic location, economic complementarity, international mobility of production factors, in particular that of capital, and technology progress and concentration in certain countries, all have been determining factors to choose China's fundamental economic partners. Consequently, China's major trade partners are located in East Asia (Japan, South Korea, Taiwan, Hong Kong and the Association of Southeast Asian Nations) and advanced economies elsewhere.

Latin America and the Caribbean play a secondary role among China's partners, very similar to that of Africa; however, their comparatively much broader reciprocal economic relations may possibly grow, which results in the urgent need of providing these relations with a strategic meaning. It is clear that China has already begun constructing that strategic relationship according to its own interests; however, LAC is far from trying the same with China, from a regional point of view and in accordance with its own interests.

Interdependence that has been developing between our region and China at least has three distinctive features, depending on the group of countries involved. A first group includes Mexico and Central America, whose economies are competitive and, in a sense, rivals of China in international markets. Furthermore, most Central American governments recognize Taiwan and, thus, it is not easy for them to strengthen economic cooperation with the People's Republic of China. An exception to the rule is Panama, because the Panama Canal is logistically very important for China. South America is a second group which includes economies that, in general, are complementary to China's, although this

complementarity relationship is not the most convenient in the long term for South American countries. In this group, Paraguay is the only country that does not have diplomatic relations with China. The third group comprises the Caribbean nations and is characterized by the low levels of trade and economic exchange with China (of course, with the exception of Cuba). Relevance of this third group lies in the fact that the Chinese government is developing a multilateral mechanism with the Caribbean Community, which is aimed at channelling Chinese economic cooperation policy according to which China is the financial support net donor. This policy does not include those countries that recognize Taiwan government.

In the absence of a unified integration bloc or mechanism that comprises the entire LAC region, a feasible way to develop a relatively common policy towards China is to take advantage of regional forums with which the Asian country already has formal ties. It is also necessary to define those topics in which China is explicitly interested, such as South-South cooperation to promote the development of a fairer and more sensitive multilateral system; environmental preservation and the fight against global warming, among those referred to in the Chinese document on relations with our region. These topics should be dealt with in a coordinated manner, at least by those Latin American and Caribbean governments that have diplomatic relations with China. Financial cooperation, in terms of direct investment, loans and other capital flows, should also be discussed on a multilateral forum, regardless that cooperation is mainly of bilateral nature.

For a more detailed discussion on international trade, payment and cooperation issues, it is advisable to take advantage of specialized forums, such as G-20 and APEC, where LAC governments may participate and discuss with China joint actions to be taken by both parties in fundamental topics of common interest of the global agenda.

However, it would be convenient and appropriate that a strictly regional institution such as SELA progressively becomes the focal point of our region for the analysis and preparation of proposals and the promotion of a future stance of LAC towards China. A first step in this connection would be the conduction of a regional consultation meeting among SELA Member States in 2012 to discuss the document on the Chinese policy towards LAC, so as to develop a collective inventory of what each State has done and is doing in terms of exchanges at the different levels and branches in the political, economic and social areas. That inventory would provide a shared knowledge of actions taken as regards cooperation with China and would help those countries with limitations in terms of their capabilities support each other in the use of effective means of cooperation with China.

An example of these cooperation means with China is the China-Latin America Entrepreneur Summit, an initiative of the Chinese Council for the Promotion of International Trade, which has held three annual meetings since 2007; the first in Santiago, Chile, the second in Harbin, Heilongjiang, China, and the third in Bogotá, Colombia; the next will be conducted in Chengdu, Sichuan, China, in October 2010;¹¹ the China-Caribbean Entrepreneur Forum (described herein) and other similar forums that may take place in the future. In this type of interactions, trade, industrial or entrepreneurial chambers of each LAC country, which have specialized branches in their relations with China, Asian-Pacific or East Asia, play a fundamental role.

Since Latin American and Caribbean countries that concentrate the largest part of the regional cooperation with China have already agreed with the Asian country that their relations are strategic and have established high-level joint committees that meet periodically to follow up bilateral action programmes already underway, a great step

¹¹ <http://asiapacifico.bcn.cl/noticias/cuarta-cumbre-empresarial.china-america-latina>

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forward would be the creation by the Ministries of Foreign Affairs of those countries (Argentina, Brazil, Chile, Cuba, Colombia, Ecuador, Mexico, Peru and Venezuela) of a mechanism for regular consultation and exchange of information among them with a Latin American and Caribbean scope, to analyze progress and obstacles in a strategic relationship between China and LAC. The Permanent Secretariat of SELA could be the means to achieve that regular exchange of bilateral experiences between Latin American and Caribbean countries and China.

At the subregional level, it appears to be clear that the Caribbean region could advance more rapidly than others in terms of collective and comprehensive policies regarding their relations with China. The Caribbean Community and its institutions will facilitate this task, and other countries in the area which do not belong to this regional bloc but maintain important relations with China, such as Cuba, could actively participate in the aforementioned entrepreneurial forum between China and the Caribbean.

In general, LAC should view their future political, economic, technological, social and cultural relations with China from a long-term perspective in order to develop a diversified interdependence with the Asian country instead of the current interdependence between a manufacturing and investment exporting centre, which mainly aims at assuring supply sources, on the one hand, and a group of countries that supply raw materials, food and energy, on the other. This view could be shared by all Latin American and Caribbean countries that maintain diplomatic, political and economic ties with China. Policies that govern relations with China will always be varied and individual; however, the different countries could share goals, experience and knowledge on China and on its evolution and the impact of the economic relations that Latin American and Caribbean nations maintain with the Asian country.

Intergovernmental joint committees, industrial, investment and commerce chambers, sectoral and exchange groups and business missions all play a significant role as instruments and means available in several countries in our region to deal with their relations with China. As regards the committees, it is worth mentioning those countries that have established intergovernmental joint committees with China (Mexico, Argentina, Brazil and Chile), which in some cases work according to a specific medium-term cooperation programme, which usually covers five years and focuses on specific areas, such as trade and economy, finance, cooperation, technology, education, culture, and even sports.

Furthermore, the creation of commerce chambers or the like, specialized in the area of cooperation with China, should be promoted in those countries where they do not exist or are incipient. The forms of organization of such institutions, which are adjusted to the tradition of trade and productive private sectors of each country, are varied. However, it should be noted that the most successful chambers in terms of coordination and operational effectiveness are those that belong to entrepreneurial groups (confederations and federations and their sector-based subgroups), because their nature allows them to concatenate sometime contradictory business interests, so that a more or less common stance towards China can be adopted.

Two brief examples that illustrate this idea are described below. In Argentina, producers of grains and oleaginous seeds have their own chambers of commerce, which, in the exchange with China, may have some difficulties with relation to some products, as recently happened with soybean. Wheat exporters, in turn, are in a different situation, which makes it necessary to harmonize positions and interests in a commerce and industry chamber that follows up exchanges between Argentina and China. In Mexico, textile and clothing chambers have established a solid front against competition from China in the same product sector over recent years. This has translated into pressures on

the Mexican government for it to set very high compensations for Chinese imports. If this issue were discussed more frequently and in greater detail in the Asian section of the Mexican Entrepreneurial Council, a stance may emerge which would take into account the interests of textile producers, thereby avoiding unnecessary differences with China.

A third and relatively new kind of binational cooperation with China is found in the legislative sphere. Meetings between lawmakers from several LAC countries and their Chinese counterparts started a few years ago; however, the transformation of these meetings into formal joint committee of assemblies or legislative chambers is only incipient.

Considering the widely varied nature of governmental institutions, either national or local, and business organizations (commerce, investment chambers, etc.) in Latin American and Caribbean countries in their relations with China, it would be useful to take the identification of the types of exchanges and instruments, which is contained in the document *China's Policy toward Latin America and the Caribbean*, as a reference in order to envisage a possible listing of mechanisms that would be required in our region to develop and strengthen exchange with China.

Finally, Latin American and Caribbean countries should individually prioritize the development of studies by the academic sector and public institutions, on the political and economic evolution of China and on reciprocal economic relations. For the moment, those countries in the region with the largest volumes of trade exchange and the most varied economic, technological, political and cultural cooperation programmes with the People's Republic of China are forced to do so. Posting these studies on a website such as SELA's could be very convenient for efforts to be developed in our region with a view to promoting and diversifying its economic relations with the great Asian nation.

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